THE RELATION OF POSTAL SAVINGS BANKS TO COMMERCIAL BANKS.

The postal savings scheme appeals to the interest of both the philanthropist and the scientific economist. It promises a higher plane of morality and respectability, a widespread self-mastery and self-restraint, a subordination of bestial and sensual desires and a corresponding development of æsthetic cravings. The scheme also suggests most interesting speculations as to its probable effects upon the distribution of wealth, the extent to which it will increase the capacity of the wage-earning class to compel advances in the wage scale or to resist reductions in wages. It suggests interesting problems as to the possible modifications it may produce in the consumption of goods and the consequent reaction upon production. It also opens up a very suggestive field of inquiry as to its probable or possible effects upon commercial banking institutions.

The subject of savings, has generally been treated by philanthropists, and where it has been dealt with by men who are usually judicially minded, the scientific temper has been abandoned. The fascinations of a postal savings scheme are so irresistible that those who have essayed to treat the subject seem invariably to have been betrayed into using the arts of the propagandist. This is particularly noticeable in the efforts to allay hostility on the part of the banking fraternity. We are told time and again that it appeals to a constituency which it is not profitable for the banks to cultivate. A recent article suggests, in connection with the extension of the cheque system in Austria, that it promises to relieve the banks of the "small accounts," as if the banks would be benefited. Even Dr. Shaw has given currency

to the idea that in the investment of the funds of the savings banks it has been found expedient to limit them to public securities. In speaking of the municipal system of Germany, he says: "Their funds are invested, as a rule, in imperial, national, or municipal interest-bearing securities." * The statement is far from the fact. In Saxony the savings banks have gone farther toward reaching the people than in any of the greater states of the empire. The report for 1893 shows that 339,839,299 marks of savings deposits were invested in real estate mortgage securities against only 10,557,341 marks in the class of securities referred to by Dr. Shaw. Of the rest of the funds, 5,850,614 marks were lent on chattels, and 2,552,376 marks on notes with personal endorsements.† In Prussia also real estate mortgages are the most popular class of securities. In 1893 there were 2,215,111,717 marks invested in real estate security against only 1,138,028,196 in public securities. The mortgages were nearly evenly divided between city and country property. Of the rest of the savings funds in Prussia 147,278,935 marks were invested in ordinary commercial paper.‡

This haste after unexceptionable arguments in favor of a proposed system depending upon the favor of legislation may be questionable politics. It certainly militates against clear thinking on the subject.

The enthusiasm which pervades the directories of postal savings systems evidences the whole-hearted service which the growing system has secured and furnishes one explanation of its remarkable success. Here we are not surprised to find the critical spirit absent. In my own interviews with officials in the state systems I have invariably been assured that there was absolutely no conflict of interest between the state savings bank and the ordinary commercial banks. A

* "Municipal Government in Europe." p. 372.

† *Zeitschrift des Königlich Sächsischen Statistischen Bureaus*, for 1895. p. 40.

‡ *Zeitschrift des Königlich Preussischen Statistischen Bureaus*, for 1895. p. 119.

fair sample of such opinions is that of the Director-General of the French Posts and Telegraph:

"As regards the private banks," he wrote to Mr. Wanamaker, "they have nothing to fear from the postal savings bank, which receives deposits from one franc upwards, and even deposits less than one franc, which the depositor pastes on a card and which are accepted when their value has reached one franc. The operation of postal savings banks relates principally to small accounts; and experience has shown that the postal savings bank does not in the least interfere with the development of the private banks which receive larger deposits. The vast majority of the depositors in the postal savings bank consists of minors, laborers, clerks, etc., whilst the private banks have their depositors among persons of greater means."

This is certainly the view which the enthusiastic advocate prefers to entertain, and if it could be imparted to our bankers a very formidable opposition would be allayed. It is a view, however, which has not been supported by evidence, so far as commercial banks are concerned, and I doubt if it can stand as a sound prophecy as to developments in the future.

The position is probably based upon the theory of the savings banks as a preparatory school for the commercial bank; the depositor after passing a certain stage of development finding it to his advantage to become a patron of the commercial bank. This theory assumes an incapacity on the part of the savings bank to respond to the demands of the small capitalist.

Such an inherent incapacity seems to be negatived by the statutory limitations which have been placed upon the functions of the savings banks in all the history of their development. In Wurtemburg only certain classes of persons are permitted to become patrons of the savings banks. Nearly all savings banks are limited in the amount of single deposits and in the size of accounts allowed to a single depositor. This is evidently designed for the protection of the commercial banks. At least it is in effect hostile to the encouragement of savings. Much more consistent is the

policy of the postal bank of Belgium which fixes no maximum for deposit accounts but discriminates in favor of the small depositor by gradations in the rate of interest, the rate on sums not exceeding 5000 francs being three per cent, and the rate being two per cent for everything in excess of that amount. The purpose might be still further served by fixing an amount beyond which no interest would be paid at all. Thus the patronage of the large depositor would only increase the attractiveness of the system to the small depositor by adding the earnings of a part of his deposit to the interest fund for the small deposits.

The large increase of patronage which follows upon every new opportunity offered to the larger depositor seems to indicate that the institution may appeal to a larger constituency than the French Director and Mr. Wanamaker are willing to admit. In England prior to 1893 one person could not deposit within a year a greater amount than thirty pounds sterling, an individual account could never exceed two hundred pounds sterling, purchases of government stock for one person could not exceed one hundred pounds within a year, and the total purchases of stock for one person by the postal authorities could not exceed three hundred pounds. An increase of these maxima was one of the achievements of the late Rosebery government. The law of December 21, 1893, raised the maxima as follows: of the amount which might be deposited within a year to fifty pounds; of the amount which might be invested in government stock within a year to two hundred pounds; and of the total amount of such purchases to five hundred pounds. These larger opportunities were greeted by an enormous increase of patronage. In the year following there was an increase in the number of deposit accounts of 524,000—nearly double the increase of the year preceding. The grand total of deposits was increased by more than eight and a half million pounds. The amount of the average deposit was increased by five shillings. The

average account was increased from fourteen pounds to fourteen pounds and twelve shillings.

Neither does experience show that the aim is always realized in the matter of the coveted patronage. After the first four years of the operation of the Austrian postal savings bank the patronage ranked in numerical order as follows: first, the student and scholar class; second, the propertied class, as merchants, manufacturers, land-owners, etc.; third, the wage-earning class.

A strong safeguard against the saving bank's impinging upon the sphere of the commercial banks is found in the obstructions to free withdrawals—the requirement of notice of withdrawals beyond certain amounts. Such restrictions are, under existing devices, made necessary by the policy of a low reserve. This policy is essential to a high interest rate and its abandonment would be a decided departure from the character of a savings institution, unless some new device could be introduced for the protection of the interest rate. If the saving-bank ever seriously contests the territory now occupied by commercial banks the deposits must be kept subject to immediate call.

Austria has departed from traditional methods so far as to add what may properly be called a commercial department to her postal savings system. Without abandoning her strictly savings bank with its usual restrictions, she has added a department in which freedom enough is allowed to meet the needs of the average business man, in that, although at the cost of a lower rate of interest, withdrawals may be made by cheque. At the close of 1895 there were 1,110,000 deposit accounts in the regular savings department against 28,000 in the cheque department. But in volume of business the advantage is very much with the cheque department. The report for 1895 shows a turnover of 2,970,000,000 florins and 13,740,000 transactions in the cheque department against a turnover of 68,000,000 florins and 2,595,000 transactions in the savings department. The total accounts at the close

of the year stood for the cheque department 54,541,000 florins with a reserve of 2,779,000 against 44,248,000 florins in the regular savings department, and 17,045,000 florins to the credit of its depositors.

The cheque department also shows every sign of growth. The annual number of transactions increased from 269,000 in 1887 to more than ten and a half million in 1893 and to nearly fourteen million in 1895. The number of accounts also shows a steady increase. Of the twenty-five thousand in 1893 seven thousand were in Vienna, and the next largest number were in Prague—which ranks second in commercial importance. This certainly shows a tendency to encroach upon the territory of the commercial banks.

It may properly be objected to this showing that the cheque department is not strictly a savings institution—that it only reaches out after the commercial business by sacrificing a part of the motive to saving. But what could be said of its commercial possibilities if the whole savings institution could be supplied with the same commercial facilities, could offer the same freedom of withdrawal to depositors, could fully incorporate the chequing principle without sacrificing the earning power of the deposits? This could not be accomplished by any private system or any municipal system of savings. These systems must protect themselves against runs, either by restrictions upon the right of withdrawal or by a sufficient reserve. In the latter case the interest inducement is partly sacrificed. The sovereign state, however, is armed with functions by which it may easily accomplish it. More than that, the state, it seems to me, could abandon the reserve fund entirely and keep all the money bearing interest. This was provided for in the bill introduced into the senate by Senator Allen, of Nebraska, which would permit the net deposits for each day to be invested in interest-bearing securities, by permitting the postmaster to pay withdrawals, where necessary, in postal notes. This bill provided for the cancellation of such notes when received at the treasury.

The objection to the Allen plan, that it would interfere with the volume of the circulating medium, might be met by substituting for his scheme for cancellation a provision endowing the postal notes with the same money functions that our greenbacks possess, and requiring such emergency issue for each day to be reported to the central authority, and by requiring such authority to set aside, or direct to be set aside, an equivalent amount of greenbacks and postal notes out of the day's deposits for cancellation. The introduction of such an innovation would permit the most complete union of the savings and the cheque departments without any sacrifice of the former. It would be directly in furtherance of the savings principle. The earning power of the savings on which interest would be allowed would be increased both by avoiding the necessity for any reserve—the entire deposits being invested in securities—and by the larger amounts which the chequing privileges would attract. The unrestricted freedom of withdrawal which it would allow would be not only attractive to the business community but would render the institution much more attractive to the wage-earning class as well. All classes would feel much more inclined to leave their money where they could feel perfectly sure that they might have it back at any time their convenience or an emergency might require.

If such a plan should prove practical, the question, in the light of the Austrian experience, would be, not whether the savings bank would share in the business now enjoyed by the commercial banks, but how much of this business it would take. Such a scheme in action might create far-reaching and radical institutional and economic changes. It suggests most interesting modifications of existing banking customs.

The two great considerations which would make for its success in competition with the established system would be the greater security of deposits and the interest-bearing quality. The security of government behind deposits is a

consideration which would not be despised by any class of depositors. The interest inducement indeed is a consideration which would appeal strongly to nine-tenths of bank depositors, particularly to the patrons of country banks.

Perhaps the greatest consideration which would militate against its success would be the absence of the personal element. In transferring accounts from the commercial to the savings bank the gain in safety and interest would be at the sacrifice of personal favors, of that credit which attaches to the good name of the reputable business man. The private bank has an index to business character and commercial regularity in the book account of its customer. Hence cheques are often honored when there is no money on deposit, and loans are often made on the strength of an upright business character. The human element will be entirely eliminated from the savings bank. The chequing power will always find its limitations in the amount on deposit. A good name will count for naught in the placing of funds, and loans on good personal security will necessarily form no considerable part of the scheme of a state savings institution. The director will never look at the applicant for a loan; he will look solely to the security which he offers, and the security must be of a substantial kind.

In proportion to its success our present banking energies would take on the character of a money brokerage business. Capitalists who deal in money, being deprived of the use of money left with them on deposit, would deal in commercial paper out of their private funds. Such a transition would create the most radical modification in our system of exchange, in a tremendous shrinkage in credit transactions. The money brokers would naturally gravitate to the larger centres, and their business would be limited to the larger classes of interests. Thus the use of credit would be largely withdrawn from the residents of the smaller centres, and from the smaller commercial interests generally. The advantages of the elasticity of credit transactions would

thus be lost, and commercial interests would be more at the mercy of the monetary policy of the central government, more exposed to the disasters incidental to an unwise policy.

On the other hand the transition might result in an advantage to commercial health in more conservative methods of carrying on private businesses. The country merchant being obliged to deal with the jobber in cash would be obliged to resort to a greater extent to cash transactions in dealing with his own customers, thus would the profit and loss column tend to disappear from the ledger, and with a more definite budget, commercial intelligence as well as commercial integrity would grow apace. There might be found another advantage in exemptions from general or local commercial disasters, starting with the failures of commercial banks.

As to its probable effect in the United States, such a postal savings system as I have here indicated might lend itself more readily to commercial uses than in Austria. Our methods of business have been more daring, risks are more readily assumed, and disasters more frequently follow, carrying with them in their train banking institutions and their patrons. It is a question whether so many object lessons have not prepared our sober business men to make safety of accounts an object worthy even of considerable sacrifice of convenience.

Finally I conclude that there is no ground for the assumption that savings banks naturally appeal to a different constituency from that of commercial banks. I conclude that both facts of experience and a common-sense view of the situation support a contrary theory. I submit that the more the savings bank is equipped to secure the greatest results in promoting saving the more it will be calculated to invade the territory now occupied by commercial banks. The extent of this invasion can only be a subject for conjecture.

Without recognizing this conflict of interests even the political aspects of the question cannot be intelligently considered. It is scarcely possible that the economic possibilities here suggested will not play a considerable part in the legislation on the subject when the point is reached. The advantage of the highest type of a savings bank and the possible advantages to commercial habits will be placed in one side of the balance, and in the other will be placed the commercial disadvantages and the political influence of banking interests. It is pretty certain that the state savings bank in some form will be introduced into the United States before very long. The interesting question is whether it will prove an uncompromising triumph of the savings principle, or how far it will be curbed with a view to excluding it from the territory now occupied by the commercial banks. There is much to be said pro and con as to either policy. Whatever policy may possess the greatest merit the best results are likely to be secured by placing the issues in their true light before the public.

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